

Message Text

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SUBJECT: ECONOMIC OUTLOOK FOR 1974

REF: AMMAN 6444 OF 12/5/73

SUMMARY: HIGH LEVELS OF OUTPUT ARE PREDICTED FROM ALL SECTORS OF JORDANIAN ECONOMY THIS YEAR. EXCELLENT GROWING CONDITIONS SO FAR POINT TO HIGH YIELDS OF MAJOR CROPS AND BUSINESSMEN SEEM OPTIMISTIC ABOUT 1974. SEVERAL LARGE-SCALE PROJECTS, PRIVATE AND PUBLIC, INCLUDING A FERTILIZER PLANT AND THREE NEW HOTELS, ARE TO START IN 1974. THE HOTELS AND OPENING OF A U.S. BANK WILL BE THE FIRST AMERICAN DIRECT INVESTMENT IN JORDAN. WORK CONTINUES ON MAJOR PUBLIC PROJECTS SUCH AS THE EXTENSION AND IMPROVEMENT OF THE RAILROAD AND ZARQA DAM.

BECAUSE OF HIGHER PRICES AND INCREASED QUANTITIES, EXPORT RECEIPTS FROM PHOSPHATES ARE EXPECTED TO BE UP

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SHARPLY FROM 1973, AND EXPORTS OF CEMENT AND FRUITS AND

VEGETABLES WILL LIKELY BE UP. IMPORTS OF CAPITAL EQUIPMENT AND CONSUMER GOODS ARE EXPECTED TO INCREASE AND THE TRADE GAP, A RECORD \$285 MILLION LAST YEAR, WILL REMAIN LARGE. BUDGET SUPPORT PAYMENTS FROM THE U.S. AND ARAB COUNTRIES SHOULD KEEP FOREIGN EXCHANGE RESERVES NEAR PRESENT LEVEL, EQUAL TO 13 MONTHS IMPORTS. JORDAN'S DEPENDENCE ON INTERNATIONAL SUPPLIERS FOR WIDE RANGE OF RAW MATERIALS AND PROCESSED GOODS WILL RESULT IN CONTINUED INFLATIONARY PRESSURE AND SHORTAGES OF SOME PRODUCTS. THE EXPECTED HIGH AGRICULTURAL YIELDS SHOULD LOWER FOOD COSTS, HOWEVER. END SUMMARY

1. AGRICULTURE- PLENTIFUL RAINFALL DURING FALL AND WINTER HAS MADE OUTLOOK FOR JORDANIAN AGRICULTURE EXCELLENT THIS YEAR. HARVEST OF WHEAT, THE MAJOR CROP AND DIETRARY STAPLE, IS EXPECTED TO BE 225,000 TONS. WHEAT AND FLOUR IMPORTS SHOULD THUS DECLINE SHARPLY FROM 1973 LEVEL. YIELDS OF FRUITS AND VEGETABLES ARE ALSO EXPECTED TO HIGH AND PRICES WILL LIKELY FALL BELOW THOSE OF LAST SEASON. POOR GRAZING CONDITIONS IN 1973 FORCED HERDERS TO REDUCE THEIR FLOCKS. GRAZING CONDITIONS ARE NOW EXCELLENT AND SHEEP OWNERS ARE EXPECTED TO DELAY SALES TO REBUILD THEIR HERDS. THUS, MEAT PRICES WILL LIKELY REMAIN HIGH.

2. INDUSTRY - THE EFFECT OF THE OCTOBER WAR ON INDUSTRIAL PRODUCTION IN 1973 WAS LESS THAN EXPECTED AND THE OUTPUT OF MAJOR INDUSTRIES, SUCH AS PETROLEUM REFINING, CIGARETTES, AND ELECTRICAL GENERATING, SHOWED INCREASES. THERE IS NO DATA ON INVENTORIES AND SALES, BUT BUSINESSMEN AND GOVERNMENT OFFICIALS ARE OPTIMISTIC ABOUT THE OUTLOOK IN INDUSTRY. CONSTRUCTION STARTS IN AMMAN AND ZARQA (THE ONLY CITIES FOR WHICH PUBLISHED DATA IS AVAILABLE) HAVE SLOWED. CENTRAL BANK MANAGER JARDANEH ATTRIBUTED THE DECLINE IN BUILDING STARTS TO CAPITAL GAINS TAX AND DECLINE IN INVESTMENT FUNDS FROM WEST BANKERS WORKING ABROAD. BUILDING FOR INDUSTRY MAY FILL THE GAP LEFT BY THE DECLINE IN RESIDENTIAL CONSTRUCTION. PHOSPHATES ARE JORDAN'S ONLY SIGNIFICANT MINERAL PRODUCT, BUT LARGE DEPOSITS OF POTASH AND COPPER EXIST AND THERE IS CONSIDERABLE INTEREST IN PETROLEUM EXPLORATION. UNCLASSIFIED

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U.S. AND OTHER FIRMS HAVE RECENTLY SHOWN INTEREST IN JORDAN'S MINERAL RESOURCES, BUT NO CONCESSIONS HAVE BEEN GRANTED AS YET, AND COMMERCIAL PRODUCTION IS STILL A LONG WAY OFF.

3. INVESTMENT- PRIVATE AND PUBLIC: THE LEVEL OF PRIVATE AND PUBLIC INVESTMENT PROMISES TO BE UP THIS YEAR, WITH SEVERAL LARGE-SCALE PROJECTS TO BE STARTED. LARGER

PRIVATE PROJECTS INCLUDE BUILDING TWO HOTELS IN AMMAN AND ONE IN AQABA, AT TOTAL COST OF AROUND \$16 MILLION. THE THREE HOTELS HAVE U.S. PARTICIPATION AND THE FIRST NATIONAL CITY BANK WILL SOON BEGIN OPERATION IN AMMAN. CHASE-MANHATTAN ALSO PLANS TO OPEN A BANK HERE LATER THIS YEAR. CONSTRUCTION IS TO START SOON ON A \$7 MILLION CERAMICS PLANT NEAR AMMAN AND A TEXTILE PLANT, BUILT WITH TAIWANESE AND JORDANIAN CAPITAL, IS UNDER CONSTRUCTION. A \$60 MILLION EXPANSION OF JORDAN'S ONLY OIL REFINERY IS UNDERWAY AND THE CEMENT COMPANY PLANS TO DOUBLE CAPACITY BY ADDING ANOTHER KILN. -A \$1.5 MILLION PLANT FOR THE MANUFACTURE OF STEEL TUBING IS ALSO PLANNED FOR 1974.

DEVELOPMENT EXPENDITURES IN THE 1974 GOJ BUDGET ARE A RECORD \$177 MILLION. GOVERNMENT OFFICIALS ARE OPTIMISTIC ABOUT WORK ON PLAN PROJECTS THIS YEAR, BUT DEVELOPMENT SPENDING HAS GENERALLY FALLEN BELOW ORIGINAL ESTIMATES. ONE OF THE LARGEST PUBLIC PROJECTS IS THE \$40 MILLION FERTILIZER PLANT TO BE BUILT AT AQABA. A U.S. FIRM, INTERNATIONAL SYSTEM AND CONTROLS CORPORATION, IS PARTICIPATING IN THIS PROJECT, ALTHOUGH THE GOJ WILL RETAIN CONTROLLING INTEREST. THE WORLD BANK IS TO LOAN JORDAN \$7.5 MILLION FOR AGRICULTURAL IMPROVEMENTS IN THE JORDAN VALLEY AND WORK MAY BEGIN THIS YEAR ON HIGHWAYS THERE AND FROM AZRAK TO THE SAUDI BORDER. NEW MILITARY HEADQUARTERS AND GOVERNMENT OFFICES ARE PLANNED FOR AMMAN AND A MILITARY AIR FIELD IS TO BE BUILT IN THE SOUTH. WITH THE BACKING OF HM ASSURED, WORK ON THE NEW AMMAN INTERNATIONAL AIRPORT, TO COST AROUND \$30 MILLION, COULD BEGIN BY LATE 1974.

WORK CONTINUES ON FOUR LARGE PROJECTS STARTED EARLIER; THESE ARE THE ZARQA PROJECT FOR A DAM AND IRRIGATION WORKS, AN EXPANSION AND MODERNIZATION OF JORDAN'S RAIL NETWORK, THE AMMAN-ZARQA HIGHWAY AND THE ZARQA POWER

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STATION.

4. FOREIGN TRADE - BALANCE OF PAYMENTS: MERCHANDISE EXPORTS TO 1974 SHOULD SHOW A SUBSTANTIAL INCREASE DUE TO HIGHER QUANTITIES AND PRICES FOR JORDAN'S CHIEF EXPORT, PHOSPHATES. PHOSPHATE PRICES HAVE REPORTEDLY TRIPLED IN THE PAST FEW MONTHS AND JORDAN HAS SUCCEEDED IN

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